

BMD BIRCH MOUNTAIN RESOURCES IS A WELL-FINANCED COMPANY BOLDLY EXPLORING FOR PRECIOUS AND BASE METALS. OUR LANDHOLDINGS INCLUDE CONCESSIONS IN THE PROVINCE OF WEST KALIMANTAN, INDONESIA, A BLOCK IN THE ATHABASCA REGION OF NORTHEASTERN ALBERTA AND PROPERTIES IN BRITISH COLUMBIA. OUR UNIQUE PROSPECTS OFFER POTENTIAL FOR THE DISCOVERY OF LARGE DEPOSITS OF PRECIOUS METALS AND SIGNIFICANT GROWTH IN SHAREHOLDER VALUE.

~~MESSAGE TO THE SHAREHOLDERS~~

In 1995, our first full year of operation and first year as a public company, Birch Mountain achieved exceptional success. The Company has dramatically increased shareholder value by focusing on a well-defined mandate, securing attractive financing and establishing an excellent board of directors and advisors.

EXEMPLARY BOARD

AND ADVISORS

Experience, competence and enthusiasm are three of the qualities that characterize Birch Mountain's board of directors and advisors.

Together, they represent a broad spectrum of industry experience and managerial, technical, financial, engineering, environmental and marketing abilities. During the year, the Company appointed Dr. Richard Garnett as chairman and Dr. Myron Goldstein and Mr. Gordon Toll as directors – three people with extraordinary mining expertise. The addition of Mr. Robert Friedland and Mr. Edward Flood as advisors to the board has significantly advanced our success. Indeed, we have an outstanding working board and advisors and, on behalf of all shareholders, I thank them for their contributions and dedication.

A CLEAR MANDATE

Birch Mountain's board of directors has established a well-defined mandate – to deliver maximum value to shareholders by concentrating on discoveries of large-tonnage deposits with high economic potential in strategic locations. We developed five strategies to achieve this mandate and to maximize shareholder value: acquire substantial land positions in areas capable of hosting major deposits; conduct regional exploration using integrated geophysics, geochemistry and geology; define high-potential drill targets; develop estimates of resources; and negotiate attractive financing and production

SIGNIFICANT PROGRESS

BIRCH MOUNTAIN HAS MADE SIGNIFICANT PROGRESS SINCE ITS INCEPTION IN JANUARY '95. SEVERAL KEY EVENTS HAVE POSITIONED THE COMPANY FOR EXCITING GROWTH OPPORTUNITIES AND THE POTENTIAL FOR FINDING LARGE-TONNAGE ORE DEPOSITS IN INDONESIA AND ATHABASCA.

arrangements. By maintaining an innovative outlook and rigorously assessing new prospects, Birch Mountain has assembled a portfolio of highly prospective properties that are capable of hosting major new discoveries.

TWO ENVIAZABLE PROSPECTS

As a result of a preliminary agreement signed with Danfort Developments Ltd., and Robert Friedland on October 12, Birch Mountain will acquire an international prospect that meets our mandate. Our Sintang prospect in the Indonesian province of West Kalimantan was selected after an extensive study of the geological factors controlling the mineralization processes that formed the Kalimantan gold belt. Our Contract Of Work application covers 1.1 million acres and has been initiated by the Indonesian government. We are now in the process of adding another 426,000 acres of mineral interests within our block.

Our property is ideally situated geologically with good accessibility and infrastructure. To date, our field crews have identified 44 anomalies based on aerial reconnaissance, government geological mapping and regional geochemical sampling. Working from our regional office in Sanggau, they are prioritizing these anomalies into the best targets for drilling, possibly as early as year-end.

OUR FINANCING

OUR FINANCING CAPABILITIES, COMBINED WITH OUR PORTFOLIO OF MINERAL PROPERTIES, POSITION BIRCH MOUNTAIN TO TAKE ADVANTAGE OF THE GROWING DEMAND FOR PRECIOUS AND BASE METALS. WE EXPECT THIS TREND TO CONTINUE THROUGH '96 AND BEYOND.

Our large Athabasca prospect near Fort McMurray in northeastern Alberta represents a new concept in the deposition of precious and base metals. In many aspects, the process is conceptually similar to how oil reservoirs are formed. Metals and minerals are transported at very low temperatures in highly oxygenated brines from source rocks. Permeable rock units, faults and structures provide conduits for these fluids to migrate to the basin margin and then vertically to the surface. At the contact between the highly fractured limestone and the overlying bitumen-saturated sands near Fort McMurray, these highly mineralized fluids encounter chemical gradients that initiate the precipitation of minerals within the surrounding sedimentary rocks. These fluids have been flowing over millions of years and fluid discharges are still evident in the area today. They are believed to have created the high concentration of mineralization in northeastern Alberta.

We know without question that there are large areas with highly anomalous values of gold, silver and copper in the limestone horizon, as well as various other metals. We also know that these minerals, although visible under a scanning electron microscope, do not respond to conventional assay methods. We are encouraged by the research results

obtained by the Geological Survey of Canada, Anglo American Research Laboratories in South Africa and others, which all confirm the presence of gold and minerals in these host rocks. Encouraging results are also being obtained from conventional leach extraction tests conducted on bulk samples of limestone.

While we made considerable progress in the last year, we do not yet have a definitive grade-determination method, although we hope to accomplish this soon. As one of our directors, Gordon Toll, observed recently, we are somewhere on a continuum between one of the world's largest geochemical anomalies to one of the world's largest deposits of precious metals. With our confidence in the Athabasca area, in 1995 we acquired key land blocks from H.M.S. Properties Ltd., and Focal Resources Limited.

ATTRACTIVE FINANCING

Through our association with Robert Friedland, Birch Mountain has access to worldwide capital markets that significantly enhance our ability to raise funds for continued exploration and development. Mr. Friedland's experience and counsel in structuring and negotiating financial and business arrangements are invaluable.

In November 1995, we completed a private placement with gross proceeds exceeding \$2 million. The \$9 million equity financing we announced in March 1996 will enable us to make substantial further progress this year. If exercised, common share purchase warrants attached to the March financing could raise another \$10 million over the next year.

A STRONG TECHNICAL TEAM

Birch Mountain's management, employees, consultants and board provide a high level of technical competence and integrity in our exploration and research operations. By combining their experience in both mining and oil and gas and by integrating remote sensing, geological, geophysical and geochemical information, we can quickly assess new prospects. After determining which prospects are most likely to host commercial mineral deposits, we can swiftly acquire large land positions in areas that are often not contested by other mining companies.

A GOLDEN FUTURE

I would like to thank all shareholders for their support and confidence in Birch Mountain. With pleasure, all of us have

watched the Company's stock climb to a high of \$8.00 from its initial public offering at \$0.10 and seen our market capitalization grow to \$125 million in March 1996 from \$200,000 at the beginning of 1995. Our challenge over the next few years is to solve the technical issues associated with the Athabasca prospect, an area which we believe may rival the world's largest deposits of precious metals. We expect to achieve exploration success on our Sintang prospect in West Kalimantan, and have early and positive indications of the large potential that the region has demonstrated for years. We are confident that our outstanding, committed team with its disciplined and systematic exploration and research program will succeed in continuing to enhance shareholder value in the future.

Douglas J. Rowe

President and Chief Executive Officer

Richard H. T. Garnett

Chairman of the Board

March 15, 1996

WE BELIEVE THAT
THE ATHABASCA AREA,
WHERE WE HAVE
PERMITS ON MORE
THAN 1.6 MILLION
ACRES, IS HIGHLY
PROSPECTIVE FOR
GOLD



IN ADDITION TO
THE ATHABASCA
REGION, WE HAVE
CONVENTIONAL
EXPLORATION
PROPERTIES IN
WESTERN CANADA

OUR LAND POSITION
IN THE INDONESIAN
PROVINCE OF WEST
KALIMANTAN COULD
RESULT IN LARGE-
TONNAGE DISCOVERIES
FOR BIRCH MOUNTAIN

Contract of Work (COW), which has already been initiated by the Indonesian government, for 1.1 million acres and have applied for a COW on the remaining 426,075 acres. Our land position is on a tectonic belt that we believe is highly prospective for porphyry copper/gold and epithermal deposits such as those at Grasberg and Busang.

There are several reasons why Birch Mountain has acquired this Indonesian property. Over the last 200 years, many others have proven the richness of Indonesia's mineral wealth. In the last century, placer gold operations in West Kalimantan extracted several million ounces of gold. Now, Indonesia's gold production exceeds 1.4 million ounces per year. Two of the largest known gold deposits in the world are in Indonesia – Freeport-McMoRan's Grasberg copper deposit, which contains 40 million ounces of recoverable gold and 28 billion pounds of copper, and the Busang deposit, estimated to contain 30 million to 40 million ounces of gold, which Bre-X Minerals Ltd., has recently discovered. Both Grasberg and Busang are large deposits with grades averaging between one gram and four grams per tonne. The Indonesian government is projecting an annual production of 2.5 million ounces of gold by the end of the century.

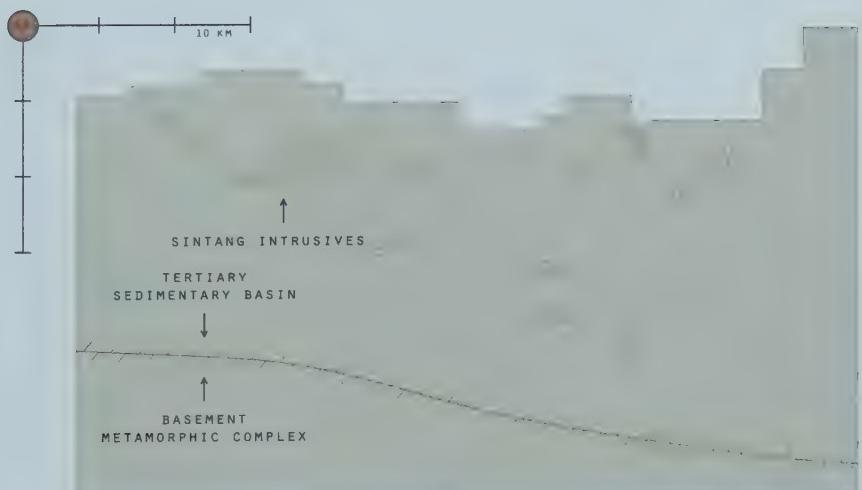
In addition to its mineral wealth, Indonesia has a stable political climate, a balanced budget and an encouraging environment for business investment. The country's updated mining act and financial and legislative climate provide investors with long-term security. For the last three decades, Indonesia's economy has been growing at the

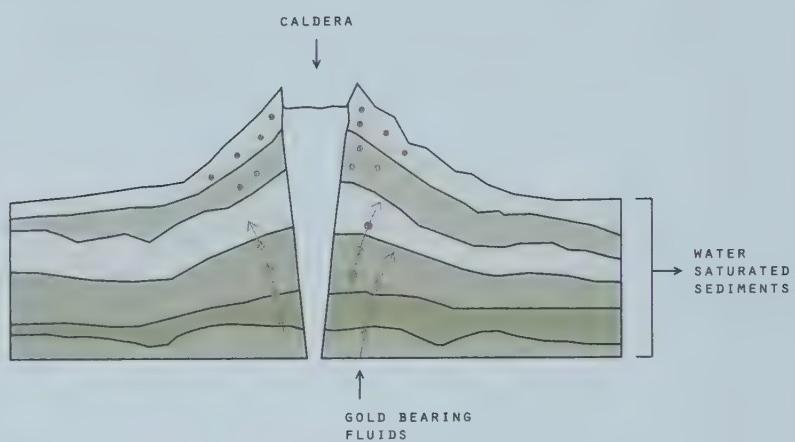
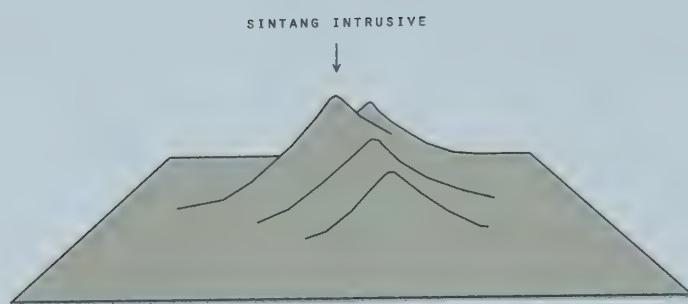
KALIMANTAN, INDONESIA

Indonesia, home of the largest porphyry copper/gold occurrences in the world and significant epithermal gold, holds immense opportunities for Birch Mountain. Guided by our strategy to acquire and explore mineral properties with potentially large-tonnage deposits, we purchased a 90 percent working interest in what we call our Sintang prospect on a block of 1.5 million acres in Indonesia in the province of West Kalimantan, formerly known as Indonesian Borneo. We will acquire this asset primarily through the purchase of Danfort Developments Ltd., an affiliate of Robert Friedland's Ivanhoe Capital Corp. Indochina Goldfields Ltd., conducts exploration on these lands for Birch Mountain and has an option to earn 51 percent of our interest in this property. We expect to receive a



① IN THE PROVINCE OF WEST KALIMANTAN IN INDONESIA, BIRCH MOUNTAIN'S SINTANG PROSPECT IS ON A TECTONIC ARC THAT FORMS A WIDE AND PROMINENT BELT CONTAINING PRECIOUS METALS. OF THE GOLD DEPOSITS IN THIS BELT, THE KELIAN, BUSANG AND MT. MURO ARE THE MOST NOTABLE. ② IN THE TERTIARY AGE, MOVEMENTS IN THE EARTH'S TECTONIC PLATES RESULTED IN THE ERUPTION OF VOLCANOES AND THE FORMATION OF ASSOCIATED MOUNTAIN RANGES. THESE ARE VISIBLE TODAY IN THE REGIONAL GEOLOGY, PARTICULARLY THE SINTANG INTRUSIVES WITHIN TERTIARY SEDIMENTARY BASINS.





③ DEPOSITS OF PORPHYRY COPPER/GOLD AND EPITHERMAL GOLD MINERALIZATION IN KALIMANTAN ARE BELIEVED TO HAVE RESULTED FROM SINTANG INTRUSIVES AND ASSOCIATED HYDROTHERMAL FLUIDS PENETRATING INTO THE SURROUNDING SEDIMENTS. ④ REGIONAL GEOCHEMICAL SURVEYS HAVE SHOWN THE PRESENCE OF ANOMALOUS GOLD AROUND THE SINTANG INTRUSIVES ON OUR CONCESSIONS. ALLUVIAL GOLD — TRANSPORTED BY RIVERS FLOWING OUT OF BIRCH MOUNTAIN'S LANDHOLDINGS — CONFIRMS THE PRESENCE OF GOLD WITHIN OUR BOUNDARIES.



rate of seven percent per year. The country has a literacy rate of 86 percent and contains approximately 250 universities. Indonesia now has the fourth largest population in the world, after China, India and the United States. The existing infrastructure in West Kalimantan enables us to explore cost-effectively for gold.

The geological history that led to the deposition of precious metals in Indonesia attracted Birch Mountain to the area. Movements of the earth's plates in the Pacific Rim have caused the formation of large-tonnage copper/gold porphyry bodies and epithermal gold deposits that are capable of sustaining high production. These tectonic plate collisions eventually led to the eruption of volcanoes and development of associated mountain ranges. The islands of Indonesia have been formed primarily by these processes and, as a result, Indonesia is particularly favourable for large deposits of volcanogenic origin.

The Sintang prospect awarded to Birch Mountain in Indonesia is located on a tectonic arc that is a prominent geological feature of Kalimantan. The remains of volcanic calderas are visible within the area as one of the surface expressions of Sintang intrusives. At the surface, some of these intrusives resemble the volcanic caldera at the Lihir gold site in Papua New Guinea, on Indonesia's eastern border.

Kalimantan has had a rich history of gold occurrences. In the northern region of West Kalimantan are the old "Chinese districts," where a million ounces of gold were extracted in a single year – 1823 – and

several million ounces have been mined during the last two centuries. In the northwest, the mining camps of Bau and Bidi in Sarawak are important historic sources of gold on the same geological trend as our Sintang prospect. To the immediate south of our concession, placer gold has been recovered from rivers flowing out of our land holdings, which suggests that the gold sources are on our Sintang prospect.

The main logistical base for our exploration activities is the town of Sanggau, approximately 100 kilometres southeast of the centre of our prospect.

During the aerial reconnaissance conducted on our Indonesian landholdings in December 1995, Birch Mountain identified 21 topographical features for immediate follow-up exploration. Our geologists have been in the field since January 1996, and their subsequent geochemical studies have shown the presence of anomalous gold in some of the rivers, which in many cases are part of drainage systems from Sintang intrusives. Surface indications of possible mineralization such as landslips, vegetation stress and soil coloration were also observed from aerial reconnaissance and satellite imagery and, as a result, we have now identified 23 more areas that justify additional work. We began a program of surface sampling and follow-up analysis in January 1996 and, depending on results, drilling may be scheduled for late 1996. We have allocated an initial budget of \$1.2 million for exploring our Indonesian Sintang prospect in 1996.

thick as 100 metres. Since this limestone formation is at or near the surface, low-cost open-pit mining is a possibility. Gold enrichment through the 100 metre section, although relatively low grade, could translate into a significant gold resource.

The discovery of micro-disseminated gold, silver, copper and related metals near Fort McKay has led to the recognition of a new and important occurrence of low-temperature strata-bound mineralization. Alteration and mineralization are believed to be related to the transportation of metals in oxygenated brines originating in halite evaporites of the Prairie Formation. Large volumes of brines migrated up-dip from the Western Canadian Sedimentary Basin and discharged at its eastern edge, providing the mechanism for mobilization and transportation of minerals. Interaction between the brines and the bitumen in the oil sand deposits is believed to be a factor in mineral deposition in this area.

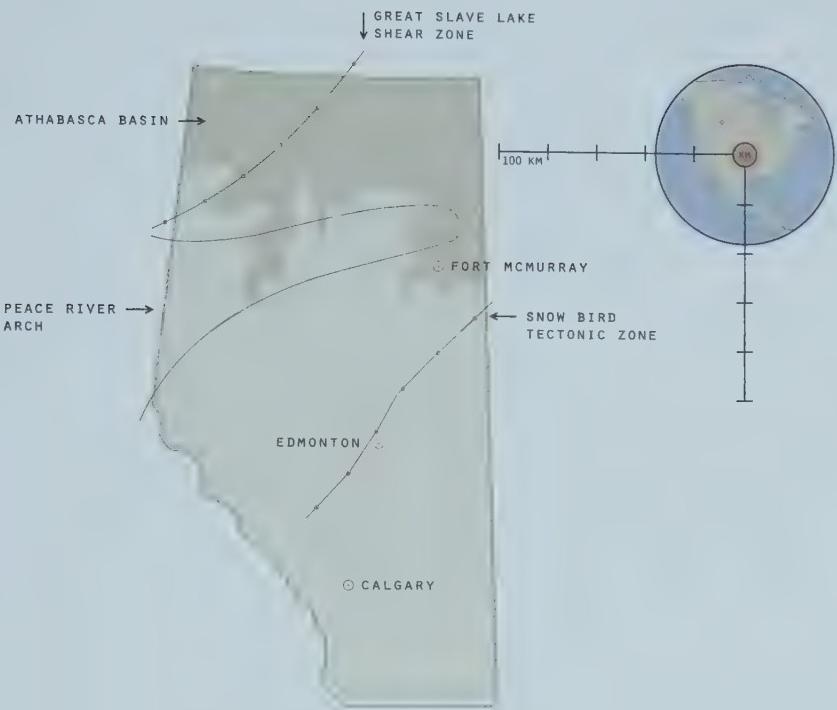
Geological studies suggest that gold emplacement was controlled by faults that were active from the Precambrian era and continued through Devonian and Cretaceous times. An uplift known as the Peace River Arch caused fracturing by means of periodic re-activation of the Precambrian faults. These faults and fractures are interpreted as the channels for oxygenated brines carrying metals, which were then deposited over large areas into these thick limestone horizons.

Throughout an extensive area, evidence of gold precipitation and fluid flow can be seen in outcrops and drill cores. Solution breccias are filled with mixtures of pyrite and bitumen. Pyrite-calcite veins and veinlets

ATHABASCA, CANADA

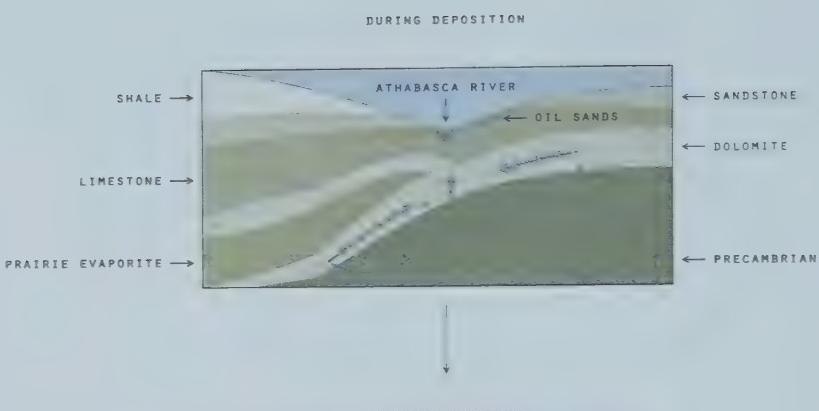
With metallic and industrial permits covering more than 1.6 million acres near Fort McMurray, Alberta, Birch Mountain is leading one of the largest exploration plays in Canada. Based on our activity to date and published results indicating the presence of precious metals in the area, we believe the Athabasca region may contain large-tonnage deposits that have the potential to become one of the world's major sources of precious metals. The infrastructure and mining expertise to handle large quantities of rock already exist in the area because Fort McMurray, with the world's largest open-pit mine nearby, is the business centre for the oil sands industry in Alberta.

We are targeting a gold-bearing limestone formation that extends for tens of kilometres horizontally with vertical sections as



① THE PEACE RIVER ARCH, ONE OF THE LARGEST GEOLOGICAL STRUCTURES IN ALBERTA, CAUSED FRACTURING OF THE LIMESTONE STRATA, CREATING MIGRATION CHANNELS FOR THE MOVEMENT OF MINERAL-ENRICHED BRINES. ② IN NORTH-EASTERN ALBERTA, BIRCH MOUNTAIN HOLDS ONE OF THE LARGEST MINERAL CLAIMS IN OUR INDUSTRY — MORE THAN SIX PERCENT OF ALBERTA'S TOTAL LAND AREA. OUR EXPLORATION PROGRAM IS FOCUSED ON THE LIMESTONE FORMATION CENTRED AT FORT MCKAY WITH ADDITIONAL STUDY OF THE SHAFTSBURY SHALE IN THE BIRCH AND CARIBOU MOUNTAINS.





③ GOLD AND OTHER MINERALS IN THE PRECAMBRIAN FORMATION WERE DISSOLVED BY FLOWING BRINES. AS FLUIDS ENCOUNTERED THE BITUMEN-RICH FORMATION, METALS WERE PRECIPITATED IN THE HIGHER FORMATIONS, ESPECIALLY IN THE THICK LIMESTONE HORIZONS IN THE ATHABASCA RIVER REGION. ④ OUR EXPLORATION PROGRAM IN THE FORT MCKAY AREA HAS ADVANCED TO THE DRILLING STAGE. DURING THE LAST 18 MONTHS, WE DRILLED 13 NEW EXPLORATORY HOLES, ADDING TO THE FOUR THAT LAC MINERALS HAD PREVIOUSLY COMPLETED ON OUR LAND.



exhibit hydraulic fracturing, mineralogical zoning and hornfels alteration margins. Ankerite alteration and secondary disseminated pyrite are common to the area. Research conducted by the Geological Survey of Canada, the Alberta Geological Society, Saskatchewan Research Council, Anglo American Research Laboratories and others has clearly demonstrated the presence of anomalous concentrations of precious metals in the rock formations in this area.

Prior attempts to confirm micro-analytical results by using conventional assay methods have been unsuccessful. However, through extensive research, we are making positive progress in the development of metallurgical techniques that could enable us to quantify the gold occurrences on our property and to extract the gold on a large-scale commercial basis. With Birch Mountain's \$9 million financing announced in March 1996, we will pursue continued research, which will include resumption of the project that Lac Minerals had begun with Anglo American Research Laboratories in South Africa.

With the assessment work we have conducted in the Athabasca area to date, our metallic and industrial mineral permits are in good standing until 1998. The Company plans to spend \$5.5 million on the Athabasca project in 1996. Capital will be directed toward assay and process research and field exploration, including drilling.

LAND POSITION

	Gross Jan. 1, '95	Gross Dec. 31, '95	Net Dec. 31, '95
Indonesia	—	1,082,789*	974,510*
Athabasca	489,918	2,582,804	2,033,250
Peace	9,744,273	8,833,980	8,833,980
Tas	2,955	7,042	7,042
Eagle	—	5,436	5,436
Jumbo	1,297	1,297	1,297
Wild Horse	11,000	11,000	2,750
Total	10,249,443	12,524,348	11,858,265

* Subject to completing formal agreements.

In 1995, Birch Mountain increased its landholdings by 23 percent. We tripled our land position in the Athabasca area in northeastern Alberta and will acquire more than 1.35 million acres in West Kalimantan, Indonesia.

In addition to our two main prospects in Indonesia and Athabasca, Birch Mountain has several other mining projects in Western Canada that offer the potential for large deposits of gold and other precious metals.

PEACE

While exploring our Athabasca project, we also identified possible precious metal occurrences in the Shaftsbury shale, which was formed during the Cretaceous period. In a regional stream sediment survey, geochemical anomalies of precious and base metals were encountered. Much of the geographic extent and outcrop of the Shaftsbury formation underlies the Company's permits in the Peace area, which total 9.2 million acres.

copper/gold. Limited drilling on this property indicates average grades of up to 1.2 percent copper and up to 0.5 grams per tonne of gold in zones that are 15 metres to 27 metres thick. High-grade samples contain one percent to six per cent copper. A kilometre-wide mineralized zone extends over more than three kilometres in length. This zone appears similar to the Red Chris and Yellow Chris deposits in northern British Columbia, which together have an ore reserve of approximately 300 million tonnes containing an estimated 2.5 billion pounds of copper and 3.6 million ounces of gold. Birch Mountain's Eagle property covers 5,500 acres.

JUMBO

This lead/zinc prospect near Invermere, British Columbia, strongly resembles the nearby Mineral King Mine, which produced 2.3 million tons grading 4.12 percent zinc and 1.77 percent lead between 1954 and 1964. During our exploration activity in 1995, Birch Mountain's geologists found zones grading 2.44 percent to 5.01 percent combined lead/zinc in widths of one metre to two metres that are open horizontally and vertically. In 1996, the Company plans a program of trenching and drilling at Jumbo.

WILD HORSE

Since the 1920s, the Wild Horse River in southeastern British Columbia has been the site of placer gold deposits. Geological studies indicate our claims on 11,000 acres of land near the river may contain the source of the placer gold deposits.

OTHER MINERAL PROPERTIES

TAS

The target of this porphyry copper/gold prospect (15,563 acres) in northeastern British Columbia is a high-tonnage, low-grade ore body similar to the 400 million ton deposit at Mt. Milligan, which is 30 kilometres north. Our property is also situated in the same environment as the well-known Copper Mountain, Ingerbell and Granisle mines. Trenching and diamond drilling have encountered a number of high-grade gold veins on our property.

EAGLE

At Eagle, which is 45 kilometres northwest of our Tas property, we are also targeting deposits of high-tonnage low-grade porphyry

FERGUSON TAIL BY WILSON

JANUARY 31, '95
LISTED FOR
TRADING \$0.45

OCTOBER 16, '95
PRELIMINARY
AGREEMENT
REACHED WITH
ROBERT FRIEDLAND
\$3.50

JULY 4, '95
MAJOR TRANSACTION
FINALIZED \$1.25

SIGNIFICANT
EQUITY ISSUE
ARRANGEMENTS AD

This transaction is more fully described in Notes 2 and 6(e) of the Financial Statements.

L I Q U I D I T Y

At December 31, 1995, the Company's working capital was \$1,572,544. In March 1996, we announced a financing arranged with First Marathon Securities Limited and Griffiths McBurney & Partners. This financing will raise up to \$9.8 million (\$9.2 million net) through the issuance of special warrants and, if the accompanying common share purchase warrants are exercised during the next year, we will raise an additional \$10 million.

N E W F I N A N C I N G S

One of Birch Mountain's major strengths is our ability to raise funds. The Company's business

MANAGEMENT'S DISCUSSION & ANALYSIS

M A J O R T R A N S A C T I O N

On May 8, 1995, the Company's shareholders approved the acquisition of all of the common shares and common share purchase warrants of Birch Mountain Minerals Ltd. through issuing 11,682,086 common shares of the Company, 5,046,257 Series "A" common share purchase warrants of the Company and 168,209 Series "B" common share purchase warrants of the Company. This transaction constituted the Major Transaction of the Company, under Policy 4.11 of the Alberta Securities Commission and Circular No. 7 of The Alberta Stock Exchange. Pursuant to this transaction, Birch Mountain acquired the large majority of its mineral claims other than its interests in Indonesia.

plan, our directors' and advisors' track record of success in other business ventures, our creative exploration expertise and the world's strong demand for gold have contributed to Birch Mountain's success in attracting equity capital.

During 1995, the Company raised \$2,495,060 cash through issuing 3,577,000 common shares as a result of the initial public offering, private placements of common shares from treasury and the exercise of stock options. Combining this with the financing announced in March 1996, the Company will have raised cash of \$11.7 million (net) since January 1995 through issuing treasury shares.

Birch Mountain has no long-term debt. Management does not plan to incur any long-term debt until a decision is made to begin production on one of the Company's mineral projects.

CAPITAL PROGRAMS

Birch Mountain began early-stage exploration and drilling in 1995 on our properties in north-eastern Alberta and northeastern British Columbia. As a result of the progress we made during the 1995 exploration season and the Company's entry into an exploration project in Indonesia in late 1995, Birch Mountain's exploration budget for 1996 has grown to \$7 million. Of this amount, \$4 million will be directed toward drilling and analysis. We have allocated \$1.5 million to prospecting and geotechnical surveys and the same amount to research and development. In addition, we plan to spend \$1.0 million on land acquisitions.

GENERAL AND**ADMINISTRATIVE EXPENSES**

General and administrative expenses rose 83 percent to \$412,001 in 1995 because of the significant increase in the scale of our exploration activity. We expect dramatic growth in our activity in 1996, which the Company esti-

mates will result in an increase of \$800,000 to our general and administrative costs

OPTION TO**ROBERT FRIEDLAND**

On October 12, 1995, some of the major shareholders of the Company entered into a preliminary agreement with Robert Friedland whereby Mr. Friedland was granted an option to purchase up to seven million common shares and/or warrants to purchase these shares from them. In return, Mr. Friedland agreed to transfer to Birch Mountain 100 percent of the shares of Danfort Developments Ltd., a private company holding mining interests in the province of West Kalimantan in Indonesia. Mr. Friedland also agreed to assist the Company in obtaining the financing we may need from time to time to acquire and develop our assets. At the time the option to purchase the block of seven million shares was granted, it represented 32 percent of the outstanding common shares, on a fully diluted basis, and was the largest single block of shares in the Company.

COMMON SHARE HIGHLIGHTS

	Dec. 31, '95	March 15, '96
Common shares issued and outstanding	17,359,086	17,527,295
Outstanding stock options to management and directors	1,775,000	1,875,000
Common shares via outstanding warrants	2,691,337	2,523,128
Fully diluted common shares	21,825,423	21,925,423
Non-escrowed common shares	4,876,046	. 5,044,255
Market Float (estimate)	2,300,000	9,400,000
Undiluted	15,000,000	15,000,000
Fully Diluted	20,000,000	20,000,000

For more information on common shares, escrowed shares and stock options, please refer to Note 6 in the Notes to the Financial Statements.

AUDITORS' REPORT

To the Shareholders of Birch Mountain Resources Ltd.:

We have audited the consolidated balance sheets of Birch Mountain Resources Ltd. as at December 31, 1995, and 1994, and the consolidated statements of loss and deficit and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our

opinion is expressed on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994, and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994, and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Barr Shelley Stuart

Chartered Accountants

January 20, 1996
January 19, 1995

MANAGEMENT'S REPORT

The following financial statements of the annual report are the responsibility of management. The financial statements have been prepared by management in accordance with generally accepted accounting principles. The basis of the financial statements is historical cost. Management has made judgements and estimates in preparing the presentations which are critical in the context of the financial statements. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual report has been reviewed by the audit committee and the external auditors.

A management system of internal control policies and procedures is designed to give reasonable assurance that transactions and amounts recorded, classified and reported in the books and records are presented fairly in the financial statements.

Barr Shelley Stuart, Chartered Accountants, appointed by the shareholders, have examined the financial statements and have provided an independent professional opinion. Their audit was conducted in accordance with generally accepted audit standards in Canada.

The audit committee has reviewed these statements with management and the auditors and has reported to the board of directors. The board has approved the financial statements.

D.W. Dallas
Chairman of the Board

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31

1995

1994

(NOTE 13)

ASSETS

CURRENT

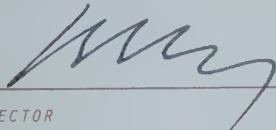
CASH AND TERM DEPOSITS	\$ 1,529,332	\$ 372,776
ACCOUNTS RECEIVABLE	50,828	72,269
INVESTMENT TAX CREDITS	46,956	46,956
PREPAIDS	3,899	1,067
	1,631,015	493,068
CAPITAL ASSETS (NOTE 4)	87,466	82,774
MINERAL EXPLORATION COSTS (NOTE 5)	2,043,495	796,213
	\$ 3,761,976	\$ 1,372,055

LIABILITIES

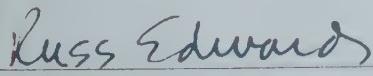
CURRENT

ACCOUNTS PAYABLE	\$ 58,471	\$ 43,758
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (NOTE 6) /	4,590,940	1,600,256
DEFICIT	(887,435)	(271,959)
	3,703,505	1,328,297
	\$ 3,761,976	\$ 1,372,055

APPROVED ON BEHALF OF THE BOARD:



DIRECTOR



DIRECTOR

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

FOR THE YEARS ENDED DECEMBER 31

1995

(NOTE 13)

EXPENSES

SALARIES, MANAGEMENT FEES AND BENEFITS	\$ 157,776	\$ 63,565
PROFESSIONAL FEES	93,656	86,503
TRAVEL AND PROMOTION	65,318	22,159
OFFICE	41,871	21,844
RENT	17,393	15,500
TRANSFER AGENT FEES	5,209	-
INTEREST AND BANK CHARGES	1,408	488
AMORTIZATION	29,370	15,026

LOSS BEFORE THE FOLLOWING

(412,001) (225,085)

INTEREST AND OTHER INCOME	21,068	32,350
RESEARCH COSTS	(159,682)	(79,224)
WRITE-OFF OF MINERAL EXPLORATION COSTS	(64,861)	-
	(203,475)	(46,874)
NET LOSS FOR THE YEAR	(615,476)	(271,959)
DEFICIT AT BEGINNING OF YEAR	(271,959)	-
DEFICIT AT END OF YEAR	\$ (887,435)	\$ (271,959)
LOSS PER SHARE (NOTE 7)	\$ (0.04)	\$ (0.13)

CONSOLIDATED STATEMENTS OF CASH FLOW

FOR THE YEARS ENDED DECEMBER 31

1995

1994

(NOTE 13)

CASH PROVIDED BY (USED IN)

OPERATING ACTIVITIES

NET LOSS FOR THE YEAR \$ (615,476) \$ (271,959)

ADD ITEMS NOT INVOLVING

A CURRENT CASH OUTLAY

AMORTIZATION 29,370 15,026

WRITEDOWN OF MINERAL EXPLORATION COSTS 64,861 -

(521,245) (256,933)

CHANGES IN WORKING CAPITAL BALANCES

RELATED TO OPERATING ACTIVITIES

ACCOUNTS RECEIVABLE 21,441 (72,269)

INVESTMENT TAX CREDITS - (46,956)

PREPAIDS (2,832) (1,067)

ACCOUNTS PAYABLE 14,713 43,758

\$ (487,923) \$ (333,467)

FINANCING ACTIVITIES

ISSUANCE OF COMMON SHARES FOR CASH 2,495,060 1,617,051

ISSUANCE OF COMMON SHARES

FOR MINERAL PERMITS 1,348,200 -

DEFERRED INCOME TAXES ON RENOUNCEMENT

OF EXPENDITURES ON FLOW-THROUGH SHARES (750,000) -

SHARE ISSUANCE COSTS (102,576) (11,795)

\$ 2,990,684 \$ 1,600,256

INVESTING ACTIVITIES

PURCHASE OF CAPITAL ASSETS (34,062) (97,800)

MINERAL EXPLORATION EXPENDITURES, NET

OF DEFERRED INCOME TAXES OF \$750,000 (1,312,143) (796,213)

(1,346,205) (894,013)

INCREASE IN CASH 1,156,556 372,776

CASH AT BEGINNING OF YEAR 372,776 -

CASH AT END OF YEAR \$ 1,529,332 \$ 372,776

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1995

① NATURE OF OPERATIONS AND GOING CONCERN CONSIDERATIONS

Birch Mountain Resources Ltd. (BMRL) is in the process of exploring its mineral properties and has not yet determined whether the properties contain economically recoverable reserves. The recovery of the amounts shown for the mineral exploration costs is dependent upon the existence of economically recoverable reserves, confirmation of the Company's interest in the underlying mining claims, the ability of the Company to obtain necessary financing to complete the development and future profitable production.

Because of the operating losses of the past two years, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operation.

② MAJOR TRANSACTION

BMRL was classified as a Junior Capital Pool Corporation (JCP) as defined in Alberta Securities Commission Policy 4.11. As its Major Transaction and effective July 4, 1995, BMRL acquired all of the issued and outstanding shares and warrants of Birch Mountain Minerals Ltd. (BMML), a private mineral exploration company, in exchange for 11,682,086 common shares, 5,046,257 Series A Warrants, and 168,209 Series B Warrants, at a rate of 0.84 BMRL common shares, Series A Warrants and Series B Warrants for each BMML common share, A Warrant and B Warrant.

It was determined that both companies were controlled before and after the acquisition by the same controlling shareholder group, therefore, the business combination has been accounted for using the pooling of interests method of accounting. Under the pooling of interests method, the assets and liabilities of the companies are combined at their carrying values and the revenue, expenses and net loss include the results of the companies for the entire fiscal period in which combination occurred. The comparative figures have also been restated to reflect the financial position and results of operations as if the companies had been combined since their inception.

The assets and liabilities, at book values, at the date of acquisition are as follows:

	BMRL	BMML
TOTAL ASSETS	\$ 478,762	\$ 2,243,936
TOTAL LIABILITIES	229,243	140,324

The revenues and net loss from January 1, 1995, to June 30, 1995, were as follows:

REVENUES	\$ -	\$ -
NET LOSS	8,466	201,339

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1995

③ SIGNIFICANT ACCOUNTING POLICIES**A MINERAL EXPLORATION COSTS**

The mineral properties are recorded at cost. Cost includes the cash consideration and if any, the fair market value of shares as they are issued. All acquisition, exploration and related overhead expenditures are deferred until the properties to which they relate are placed into production, sold, allowed to lapse or abandoned. These costs are then amortized over the estimated useful lives of the properties following the commencement of production or written off if the properties are subsequently sold, allowed to lapse or abandoned.

Properties acquired under option agreements or joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment.

B RESEARCH AND DEVELOPMENT

The Company is actively engaged in researching new technology applications. Costs associated with such projects, net of investment tax credits, are expensed in the period they are incurred.

C CAPITAL ASSETS

Capital assets are recorded at cost. Amortization is recorded at the following annual rates:

Computer software	100% declining balance
Computer hardware	30% declining balance
Automotive	30% declining balance
Equipment	20% to 30% declining balance
Leasehold improvements	20% straight line

Amortization is charged at one-half of the annual rate in the year of acquisition of an asset.

D DEFERRED INCOME TAXES

The Company follows the tax allocation basis in accounting for income taxes. Income tax legislation permits the flow through to shareholders of income tax deductions relating to certain qualified mining expenditures. This gives rise to deferred taxes which are deducted from the carrying cost of the mineral exploration costs and the proceeds of capital stock when the expenditures are renounced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1995

4 CAPITAL ASSETS

		1995		1994
		COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
EQUIPMENT	\$ 56,942	15,124	41,818	27,538
COMPUTER	51,552	20,786	30,766	34,693
AUTOMOTIVE	17,750	6,878	10,872	15,531
LEASEHOLD				
IMPROVEMENTS	5,468	1,458	4,010	5,012
	\$ 131,712	44,246	87,466	82,774

5 MINERAL EXPLORATION COSTS

	BALANCE DEC 31 1994	ADDITIONS DURING THE YEAR	WRITE-OFFS DURING THE YEAR	BALANCE DEC 31 1995
ALBERTA REGION				
NORTHERN	\$ 647,095	1,918,755	9,861	2,555,989
BRITISH COLUMBIA				
REGION				
NORTHERN	149,118	53,493		202,611
SOUTHERN	-	89,895	55,000	34,895
DEFERRED TAX EFFECT				
OF FLOW-THROUGH SHARE				
RENOUNCEMENT		(750,000)	-	(750,000)
	\$ 796,213	1,310,143	64,861	2,043,495

A ALBERTA REGION

The Company holds mining interests in the Athabasca area in northeastern Alberta.

B BRITISH COLUMBIA - NORTHERN

The Company holds mining interests in the Tas and Eagle properties in northern British Columbia.

C BRITISH COLUMBIA - SOUTHERN

The Company holds mining interests in the Jumbo and Wild Horse River properties in southern British Columbia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1995

D) Included in mineral exploration costs are assets with a net book value of \$750,000 which have no cost for income tax purposes. The difference arises as a result of the renouncement of expenditures to flow-through shareholders.

⑥ CAPITAL STOCK

The Company is incorporated under the jurisdiction of the Alberta Business Corporations Act.

A AUTHORIZED CAPITAL

Unlimited number of common voting shares

Unlimited number of preferred shares issuable in series

Unlimited number of non-voting shares

B ISSUED

COMMON SHARES	NUMBER	AMOUNT
ISSUED FOR CASH	2,100,000	\$ 1,612,051
SHARE ISSUANCE COSTS /	-	(11,795)
BALANCE AT DECEMBER 31, 1994	2,100,000	1,600,256
ISSUED FOR CASH		
INITIAL PUBLIC OFFERING	2,000,000	200,000
STOCK OPTIONS EXERCISED	360,000	40,900
PRIVATE PLACEMENTS	1,217,000	2,254,160
ISSUED FOR MINERAL PERMITS	11,682,086	1,348,200
	17,359,086	5,443,516
SHARE ISSUANCE COSTS	-	(102,576)
DEFERRED INCOME TAX		
RELATING TO COSTS RENOUNCED	-	(750,000)
BALANCE AT DECEMBER 31, 1995	17,359,086	\$ 4,590,940

C PREFERRED SHARES

An unlimited number of preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges and conditions attached to the shares of each series.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1995

D RESERVED FOR ISSUE

- i) The Company has a stock option plan under which the Board of Directors can grant options to purchase common shares to senior employees, consultants and directors.

The Company has granted options on 1,875,000 common shares as follows:

TO	DATE	PRICE PER SHARE [\$]	NUMBER OF SHARES	EXPIRATION DATE
OFFICERS				
AND DIRECTORS	NOV 2/94	0.10	250,000	NOV 2/99
OFFICERS				
AND DIRECTORS	JULY 4/95	0.76	150,000	JULY 4/00
EMPLOYEES				
AND CONSULTANTS	JULY 4/95	0.59	175,000	JULY 4/00
DIRECTORS	JULY 4/95	0.375	400,000	JULY 4/00
OFFICERS				
AND DIRECTORS	SEP 14/95	1.06	600,000	SEP 14/00
DIRECTOR	JAN 16/96	4.45	200,000	JAN 16/01
DIRECTOR				
AND CONSULTANT	JAN 16/96	3.85	100,000	JAN 16/01

- ii) The Company has reserved 2,691,337 common shares with respect to the outstanding warrants related to the acquisition of BMML as follows:

SERIES	DATE	PRICE PER SHARE (\$)	NUMBER OF WARRANTS	EXPIRATION DATE
SERIES A	JULY 4/95	2 WARRANTS + \$0.30	5,046,255	JAN 30/97
SERIES B	JULY 4/95	1 WARRANT + \$0.75	168,209	JAN 30/97

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1995

E ESCROWED SHARES

Under the requirements of the Alberta Securities Commission and the Alberta Stock Exchange, 2,100,000 common shares issued for the JCP, 10,113,540 common shares issued in connection with the Company's Major Transaction and 269,500 common shares issued or obtained in connection with the initial public offering and in secondary markets are held in escrow.

The escrowed JCP shares will be released as to one-third thereof, on the first anniversary of the completion of the Company's major transaction, which was July 4, 1995. At the time of consent for the first release, approval of the second and third releases may be obtained.

The escrowed shares issued in connection with the Company's major transaction will be released on the basis of one share for each \$0.114 in deferred expenditures generated by the Company subject to a maximum release of one-third thereof for related parties in the first year after completion of the Company's major transaction and one-third thereof for each of the succeeding two years.

The escrowed shares issued on the initial public offering or obtained through secondary markets will be released as to one-third thereof on the first anniversary of the completion of the Company's major transaction and one-third thereof for each of the succeeding two years.

7 LOSS PER COMMON SHARE

The net loss per common share was calculated using the weighted average number of common shares outstanding of 16,081,503 shares (1994 - 2,100,000 shares). The effect of the warrants and stock options on the loss per share is anti-dilutive.

8 CONTINUING OBLIGATIONS

A The Company rents premises under a lease requiring annual payments of \$14,400 for each of the next two years.

B The Company has entered into a contract with a company controlled by a director to provide airborne surveying services requiring payments aggregating \$229,500 in 1996.

9 RELATED PARTY TRANSACTIONS

During the year, the Company had the following transactions with related parties:

- Paid for airborne surveying services of \$108,000 (1994 - \$16,007) to a company controlled by a director.
- Paid management fees of \$64,000 (1994 - \$43,333) to a director and to a company that is controlled by a director.
- Purchased capital assets at their fair market value of \$Nil (1994 - \$52,230) from a company that is controlled by a director.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1995

10 INCOME TAX LOSSES CARRIED FORWARD

The Company has losses available in the amount of \$563,425 to be carried forward and applied against future income for income tax purposes as follows:

	TO	2001	\$ 176,332
		2002	387,093
		<hr/>	<hr/>
		\$ 563,425	

The Company has non-refundable investment tax credits available in the amount of \$38,649 to be carried forward against future income taxes payable to 2005.

The Company also has research and development costs available in the amount of \$247,578 to be carried forward against future income for income tax purposes, indefinitely.

The potential benefits relating to the above have not been recorded in the financial statements.

11 SEGMENTED INFORMATION

The Company's principal business segment is the acquisition, exploration and development of mineral properties. All of the Company's properties are in the exploration stage. The Company's current activities are focused in Western Canada.

12 SUBSEQUENT EVENTS

Effective immediately after the year-end, BMRL and BMML were amalgamated.

13 COMPARATIVE FIGURES

Certain of the 1994 comparative figures have been reclassified to conform with the current year's presentation.

DIRECTORS**Douglas J. Rowe, P. Eng.,**

*President and CEO of Birch Mountain Resources Ltd.
Calgary, Alberta*

Co-founder of Birch Mountain Resources, Doug has been President and Chairman of the Board, Brougham Geoquest Ltd. since 1984 and has developed innovative exploration technology for oil, gas and minerals.

Richard H. T. Garnett, Ph.D.,

*Chairman of the Board of
Birch Mountain Resources Ltd.
Independent Mining Consultant
Calgary, Alberta*

Co-founder of Birch Mountain Resources, Richard has more than 35 years of experience in mineral exploration and mining. He has held senior management positions with the Anglo American group of companies, Hudson Bay Mining and Smelting, Rio Tinto Zinc and several other large mining companies, and served on the Board of Diamond Fields Resources.

Donald L. Dabbs, M.Sc., P. Ag.,

*Vice President and Corporate Secretary,
Birch Mountain Resources Ltd.
Calgary, Alberta*

Co-founder of Birch Mountain Resources, Don has more than 25 years of consulting experience in environmental management and regulatory applications to provincial and federal governments. Prior to joining Birch Mountain's staff in March 1996, he consulted to major resource developments in Western and Northern Canada, including those in the Athabasca oil sands.

Russell S. Edwards, CA,

*President of Edwards Oil Co.
Calgary, Alberta*

Co-founder of Birch Mountain Resources, Russ served as President and CEO of Aaron Oil Corporation, an oil and gas exploration company, from 1987 to 1993.

Myron A. Goldstein, Ph.D.,

*Chief Operating Officer of Carson Gold Corp.
Denver, Colorado*

With more than 25 years of extensive acquisition, exploration and development experience in precious and base metals, Myron has held many senior positions in several international mining companies, including Coeur D'Alene Mines and Lac Minerals. He has worldwide mining experience in North and South America, Africa and Asia.

Lanny McDonald, H.H. of F.,

*Vice President of the Calgary Flames Hockey Club
Calgary, Alberta*

In 1990, after more than 16 years of National Hockey League play, Lanny joined the Calgary Flames as Vice President, Marketing and Broadcasting.

Kerry E. Sully, P. Eng.,

*Independent Business Developer
Calgary, Alberta*

Former President, Chief Executive Officer and Director of Ranchmen's Resources Ltd., Kerry has more than 25 years of oil and gas experience. He was also Vice President of Corporate Development for Total Energold, a gold mining company in British Columbia.

Gordon L. Toll, M.Sc., B.Eng.,

*Chief Operating Officer of Indochina Goldfields Ltd.
Singapore*

Gordon has more than 25 years of experience in mining engineering and operations. He has held senior management positions with BHP Iron Ore, Texasgulf Inc., Anaconda Mineral-ARCO Coal, RTZ Limited and U.S. Borax. Gordon's international management experience includes working in Indonesia.

ADVISORS**R. Edward Flood, M.Sc.,**

*President and CEO of Indochina Goldfields Ltd.
Advisor and Nominee to the Board
Reno, Nevada*

Ed has more than 25 years of mining industry experience. As Manager of Project Evaluation for NERCO Minerals, he assessed operating mines and mining properties in more than 30 countries. With Robertson Stephens & Company, Ed was a research analyst covering the gold industry and co-managed the Contrarian Fund.

Robert M. Friedland, B.A.,

*Advisor to the Board
Singapore*

Robert Friedland is the founder of Ivanhoe Capital Corporation and the creator and financier of numerous public and private companies. He has been engaged in the acquisition, exploration and development of precious and strategic metals properties throughout the world since 1979.

CORPORATE INFORMATION

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 or Jane Quinn, Shareholder Services

REGISTRAR AND TRANSFER AGENT

Montreal Trust

BANKERS

Alberta Treasury Branches

AUDITORS

Barr Shelley Stuart

SOLICITORS

Ogilvie and Company

Mackimmie Matthews

BIRCH MOUNTAIN CAPITALIZATION

AND SHARE DISTRIBUTION

DECEMBER 31, 1995

Symbol	BMD
Stock Exchange	Alberta
Shares outstanding	174 million
Fully diluted shares	21.8 million
52-week High	\$8.00
52-week Low	\$0.13
Market Capitalization	\$ 67.9 million

CONVERSIONS

Acres to hectares	Multiply by 0.405
Hectares to acres	Multiply by 2.47
A ton to a tonne	Multiply by 0.907
A tonne to a ton	Multiply by 1.1
Ounces to grams	Multiply by 31.1
Grams to ounces	Multiply by 0.032

GLOSSARY

ANKERITE An iron-rich variety of dolomite.

ASSAY A test to measure the grade of an ore sample for precious metals.

BRECCIA Rock composed of coarse, angular and broken fragments cemented together by minerals.

CALCITE Calcium carbonate that has formed into a mineral.

COW Contract of Work, a legal instrument to allow foreign participation in mineral exploitation in Indonesia.

CRETACEOUS Geological time period and rocks formed in the period that occurred 65 million to 140 million years ago.

DEVONIAN Geological time period and rocks formed in the period that occurred 345 million to 400 million years ago.

EPIHERMAL A low-temperature hydrothermal mineral deposit.

HORNFELS Dark, finely grained rock formed by metamorphism and composed mainly of quartz, mica and feldspar.

HYDROTHERMAL Referring to naturally hot underground water and the mineral deposits which are created by its passage through rocks.

PORPHYRY COPPER/GOLD DEPOSIT A large-tonnage deposit that contains sulphide minerals and possible economic values of copper and gold.

PRairie EVAPORITE A mineral-rich unit in the Middle Devonian composed of halites, which are a collection of salts that generate the brine for mineral transportation.

PRECAMBRIAN The earliest geological era and rocks formed in the era that occurred more than 570 million years ago.

PYRITE Iron sulphide.

SINTANG A town in West Kalimantan in Indonesia whose name has become attached to the local intrusive rocks.

TECTONIC The forces involved in, and the resulting structural arrangement of, rocks in the earth's crust.

TERTIARY Geological time period and rocks formed in the period that occurred two million to 65 million years ago.

B
M
D

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